

## **COUNTY DEBT POLICY**

The county has a separate policy that covers the issuance, management and administration of the county's portfolio of long term obligations. The policy requires, in general, that:

1. Debt will not be used to finance ongoing operational costs.
2. Whenever possible, the county will pursue alternative sources of funding in order to minimize the level of debt.
3. That whenever practical, voter approval on the method of debt shall be utilized.

More specifically, the policy includes guidelines on the following elements:

1. The policy allows for the issuance of variable rate obligations to the extent that they do not exceed 25% of total debt outstanding.
2. The policy details the guidelines to be followed prior to the issuance of variable rate debt including feasibility, structure, and annual analysis to determine advisability of conversion to fixed rate debt.
3. The policy requires that the term of bonds be no longer than the economic useful life of the property, or in excess of available payment streams.
4. The policy requires annual review of the county's portfolio of long term obligations to initiate any type of restructuring, refunding, or refinancing beneficial to the county.
5. The policy outlines requirements for the investment of bond proceeds.
6. The policy outlines the responsibilities of the county's Debt Advisory Committee, which is a formal committee of the Board of Supervisors. These responsibilities include oversight and review of all debt policy and debt issuance activities and to make recommendations to the Board of Supervisors regarding appropriate actions on debt matters.

## **CASH FUNDED PROJECTS**

As detailed above, county policy requires prudent management of liabilities and, whenever possible, alternative sources of funding in order to minimize the level of debt. In the past several years, the county has satisfied certain portions of its capital needs without the issuance of long term obligations. This includes the major projects listed below:

- Construction of the High Desert Juvenile Detention Center, financed with a combination of state grant monies and the county's cash.
- The cash purchase of the Adelanto Adult Detention Facility.
- The cash purchase of an office building in downtown San Bernardino.

## **COUNTY BUDGET FINANCING POLICY AS IT RELATES TO LONG-TERM OBLIGATIONS**

The county's Budget Financing Policy includes policies related to long-term obligations of the county. These include:

1. Retirement System Funding - Requires that the Board first consider setting aside any savings related to negative Unfunded Accrued Actuarial Liability to fund a reserve for reduction of any existing pension obligation bonds or as a hedge against future interest rate increases.
2. Use of Variable Rate Interest Savings - Requires that when amounts budgeted for variable rate interest expense on long-term obligations exceeds actual variable rate interest expense for the year, that such savings will be used in the succeeding fiscal year to reduce the outstanding principal of long-term obligations. This applies only to debt service paid from discretionary revenue sources of the general fund. It is normal for budgeted amounts to exceed actual amounts because debt covenants require conservative budgeting of variable rate interest expense.
3. Use of Savings from Interest Rate Swap Agreements Associated with the Issuance of Debt - Requires that any county benefit realized on interest rate swap agreements, when there is a potential mismatch between swap payments and debt service payments, be retained as a contingency to offset the county's share of increases in debt service caused by the swap agreement. This contingency amount will not exceed \$5.0 million per interest rate swap agreement.

## **COUNTY LONG-TERM OBLIGATIONS**

The following discussion relates to long-term obligations backed by the full faith and credit of the county's general fund<sup>(1)</sup>. Other long-term obligations, such as those of the county's redevelopment agency and special districts are included in separate budget documents prepared for those entities.

The county's outstanding long-term debt obligations have been issued for the following purposes:

- To finance construction and improvement of county structures.
- To refinance county pension obligations.
- To finance improvements at the county owned landfills.

The county finances such projects with a variety of debt instruments. For construction and improvement projects, and for the improvement projects at the county landfills, the county has utilized lease obligations with a non-profit public benefit corporation. Such obligations are in the form of Certificates of Participation. For pension obligations the county has issued Pension Obligation Bonds.

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(1) In June of 2007 the County privately placed \$18.4 million of revenue bonds for Courthouse improvements. These bonds are secured solely by a surcharge on civil filings that is collected by the local courts. These bonds are not backed by the County's general fund and are, therefore, not included in this discussion. For more information on the surcharge revenues see the 'Courthouse Seismic Surcharge' budget unit in the Law and Justice section of this document.



As of June 30, 2007, the county's long term obligations include obligations issued to finance or partially finance the following projects:

- Construction and equipping of the Arrowhead Regional Medical Center
- Construction of the West Valley Detention Center
- Construction of the Foothill Law and Justice Center and hangars at the Chino Airport
- Construction of the County Government Center
- Construction of the West Valley Juvenile Detention Center
- Retrofit of lighting and HVAC systems at various county facilities
- Finance of down payment on a preschool building in Ontario
- Construction of the Glen Helen Amphitheater
- Improvement projects at county landfills
- Refinancing of a portion of the county's Unfunded Accrued Actuarial Liability in the years 1995 and 2004.

A summary of long-term obligations of the county, which includes a reference to the section of the book where the obligation is budgeted, is included on the following pages.

**County of San Bernardino**  
**Outstanding General Fund Certificates of Participation and Pension Obligation Bonds**  
**Budgetary Basis**

Fiscal Year Ending June 30	Pension Obligation Bonds				Certificates of Participation					
	2004		1995		2003 Glen Helen Pavilion		2003 Glen Helen Pavilion		2002	
	Pension Obligation Bonds <sup>(1)</sup>		Pension Obligation		Series B Auction Rate <sup>(1)</sup>		Series A Auction Rate <sup>(1)</sup>		Justice Center Refunding	
	\$463,895,000		\$386,265,591		\$9,875,000		\$9,825,000		\$68,100,000	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	3,350,000	24,656,821	24,510,000	10,504,199	125,000	250,406	375,000	254,912	4,435,000	2,034,938
2009	5,160,000	24,379,922	28,155,000	8,702,509	100,000	244,739	400,000	243,147	4,650,000	1,890,800
2010	7,080,000	24,103,052	32,180,000	6,618,739	100,000	239,987	400,000	231,228	4,790,000	1,704,800
2011	9,245,000	23,709,491	36,615,000	4,222,399	75,000	236,149	400,000	218,160	5,025,000	1,513,200
2012	11,570,000	23,205,177	41,505,000	1,471,352	100,000	231,671	425,000	209,090	5,155,000	1,312,200
2013	14,100,000	22,501,345	13,160,377	32,059,623	75,000	227,833	450,000	191,695	5,475,000	1,106,000
2014	16,950,000	21,778,798	12,791,883	34,788,117	50,000	225,182	450,000	178,239	5,585,000	887,000
2015	20,020,000	20,665,510	12,401,627	37,653,373	75,000	221,892	475,000	164,151	5,950,000	607,750
2016	23,355,000	19,467,434	12,035,880	40,619,120	50,000	219,242	475,000	149,181	6,205,000	310,250
2017	27,025,000	18,051,697	11,673,496	43,711,504	25,000	217,140	525,000	135,774		
2018	38,740,000	16,352,897	11,361,080	46,888,920	550,000	204,163	525,000	117,268		
2019	33,785,000	14,184,562	11,054,980	50,205,020	575,000	176,234	550,000	100,487		
2020	42,075,000	12,263,110	10,753,631	53,666,369	625,000	147,208	550,000	83,595		
2021	47,425,000	9,792,276	10,507,053	57,227,947	650,000	117,320	600,000	65,446		
2022	53,125,000	7,085,305	9,790,585	58,119,415	675,000	86,209	600,000	47,760		
2023	59,175,000	4,126,258	-	-	725,000	55,173	625,000	29,068		
2024	47,750,000	876,718	-	-	750,000	15,079	650,000	8,481		
2025	-	-	-	-	-	-	-	-		
2026	-	-	-	-	-	-	-	-		
2027	-	-	-	-	-	-	-	-		
2028	-	-	-	-	-	-	-	-		
2029	-	-	-	-	-	-	-	-		
	<u>459,930,000</u>	<u>287,200,374</u>	<u>278,495,591</u>	<u>486,458,607</u>	<u>5,325,000</u>	<u>3,115,627</u>	<u>8,475,000</u>	<u>2,427,681</u>	<u>47,270,000</u>	<u>11,366,938</u>

(1) Debt schedules for variable rate issues are based on the average interest rate at the time of issuance and do not reflect amounts budgeted for the 2007-08 fiscal year.

(2) West Valley Detention Center

**Budget Information:**

The 1995 and 2004 Pension Obligation Bonds are budgeted as salary expense in individual departmental budgets

Certificates of Participation are budgeted in the Administrative/Executive Section of this budget book, under County Administrative Office, Joint Powers Leases (General Fund)



**County of San Bernardino**  
**Outstanding General Fund Certificates of Participation and Pension Obligation Bonds**  
**Budgetary Basis**

Certificates of Participation								Total Outstanding General Fund Debt	Fiscal Year Ending June 30
2001/02		1997		1996		1996			
WVDC Refunding <sup>(2)</sup> \$94,920,000		Public Imp. Financing \$17,790,000		Govt Center Refinancing <sup>(1)</sup> \$39,600,000		WVDC Refinancing <sup>(1) (2)</sup> \$9,200,000			
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest		
5,305,000	3,769,983	790,000	630,895	2,100,000	781,335	300,000	260,640	84,434,128	2008
5,495,000	3,565,658	825,000	592,530	2,200,000	685,305	300,000	249,780	87,839,390	2009
5,720,000	3,331,020	870,000	551,415	2,300,000	584,910	300,000	238,920	91,344,071	2010
5,970,000	3,073,020	910,000	507,350	2,400,000	480,150	300,000	228,060	95,127,978	2011
6,225,000	2,805,270	460,000	473,100	2,500,000	371,025	300,000	217,200	98,536,086	2012
6,490,000	2,526,945	485,000	449,475	2,600,000	257,535	300,000	206,340	102,662,168	2013
6,800,000	2,220,884	505,000	424,725	2,700,000	139,680	300,000	195,480	106,969,987	2014
7,145,000	1,862,341	535,000	398,725	2,700,000	21,825	400,000	182,207	111,479,401	2015
7,510,000	1,484,761	560,000	370,650	2,600,000	-	400,000	167,727	115,979,245	2016
7,900,000	1,087,081	590,000	340,463	-	-	400,000	153,247	111,835,401	2017
8,305,000	668,031	620,000	308,700	-	-	400,000	138,767	125,179,826	2018
8,735,000	226,531	655,000	275,231	-	-	400,000	124,287	121,047,332	2019
-	-	600,000	242,288	-	-	400,000	109,807	121,516,008	2020
-	-	630,000	210,000	-	-	400,000	95,327	127,720,369	2021
-	-	665,000	176,006	-	-	500,000	78,433	130,948,714	2022
-	-	695,000	140,306	-	-	500,000	60,333	66,131,139	2023
-	-	735,000	102,769	-	-	500,000	42,233	51,430,280	2024
-	-	775,000	63,131	-	-	500,000	24,133	1,362,265	2025
-	-	815,000	21,394	-	-	500,000	6,033	1,342,427	2026
-	-	-	-	-	-	-	-	-	2027
-	-	-	-	-	-	-	-	-	2028
-	-	-	-	-	-	-	-	-	2029
81,600,000	26,621,525	12,720,000	6,279,153	22,100,000	3,321,765	7,400,000	2,778,953	1,752,886,213	



**County of San Bernardino**  
**Outstanding Enterprise Fund Certificates of Participation**  
**Budgetary Basis**

Fiscal Year Ending June 30	Certificates of Participation							
	2003 Solid Waste		County Medical Center		County Medical Center		County Medical Center	
	Series B Auction Rate <sup>(1)</sup>		Series 1998		Series 1997		Series 1996	
	\$93,875,000		\$176,510,000		\$121,095,000		\$65,070,000	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	5,750,000	3,351,936	-	7,394,886	15,605,000	1,204,860	-	3,261,488
2009	6,050,000	3,071,956	1,000,000	7,373,939	16,410,000	402,045	60,000	3,259,913
2010	6,375,000	2,777,067	1,100,000	7,329,949	-	-	325,000	3,249,806
2011	6,725,000	2,465,875	1,200,000	7,281,770	-	-	340,000	3,232,350
2012	7,100,000	2,138,259	9,200,000	7,063,916	-	-	360,000	3,213,975
2013	7,475,000	1,792,371	9,600,000	6,670,103	-	-	380,000	3,194,550
2014	7,900,000	1,427,031	10,000,000	6,259,532	-	-	400,000	3,174,075
2015	8,325,000	1,041,605	10,500,000	5,830,108	-	-	420,000	3,152,550
2016	8,775,000	636,331	10,900,000	5,381,832	-	-	445,000	3,129,844
2017	9,250,000	209,525	6,400,000	5,019,440	-	-	465,000	3,105,956
2018	-	-	6,700,000	4,745,028	-	-	490,000	3,081,500
2019	-	-	8,700,000	4,422,436	-	-	515,000	3,056,375
2020	-	-	9,100,000	4,049,571	-	-	545,000	3,029,875
2021	-	-	7,500,000	3,701,842	-	-	570,000	3,002,000
2022	-	-	8,100,000	3,375,061	-	-	600,000	2,972,750
2023	-	-	8,400,000	3,029,427	-	-	630,000	2,942,000
2024	-	-	16,200,000	2,514,119	-	-	665,000	2,909,625
2025	-	-	16,900,000	1,820,757	-	-	695,000	2,875,625
2026	-	-	20,200,000	1,043,604	-	-	735,000	2,839,875
2027	-	-	14,810,000	310,232	-	-	7,120,000	2,643,500
2028	-	-	-	-	-	-	24,030,000	1,864,750
2029	-	-	-	-	-	-	25,280,000	632,000
	<u>73,725,000</u>	<u>18,911,955</u>	<u>176,510,000</u>	<u>94,617,553</u>	<u>32,015,000</u>	<u>1,606,905</u>	<u>65,070,000</u>	<u>63,824,381</u>

(1) Debt schedules for variable rate issues are based on the average interest rate at the time of issuance and do not reflect amounts budgeted for the 2007-08 fiscal year.

**Budget Information:**

The 2003B Solid Waste Certificates of Participation are budgeted in the Public And Support Services Group section of this budget book, in the Solid Waste Management Division Operations Enterprise Fund

The 1994, 1995, 1996, 1997 and 1998 Medical Center Certificates of Participation are budgeted in the Administrative/Executive Section of this budget book under County Administrative Office, Medical Center Lease Payments (Medical Center Enterprise Fund)



**County of San Bernardino**  
**Outstanding Enterprise Fund Certificates of Participation**  
**Budgetary Basis**

Certificates of Participation				Total Outstanding Enterprise Fund Debt	Fiscal Year Ending June 30
County Medical Center		County Medical Center			
Series 1995 \$147,565,000		Series 1994 \$213,605,000			
Principal	Interest	Principal	Interest		
8,485,000	6,586,244	3,090,000	9,799,200	64,528,613	2008
9,045,000	6,025,725	3,280,000	9,608,100	65,586,677	2009
9,705,000	5,369,475	3,480,000	9,405,300	49,116,597	2010
10,525,000	4,661,425	3,570,000	9,202,725	49,204,145	2011
3,245,000	4,187,588	3,775,000	9,000,738	49,284,474	2012
3,465,000	3,969,513	3,990,000	8,787,200	49,323,737	2013
3,705,000	3,736,488	4,205,000	8,561,838	49,368,963	2014
3,955,000	3,487,538	4,445,000	8,323,963	49,480,763	2015
4,225,000	3,221,688	4,695,000	8,072,613	49,482,307	2016
9,545,000	2,799,363	4,965,000	7,806,963	49,566,247	2017
10,140,000	2,211,425	5,235,000	7,526,463	40,129,415	2018
7,150,000	1,711,875	7,465,000	7,177,213	40,197,899	2019
7,560,000	1,307,350	7,880,000	6,755,225	40,227,021	2020
6,180,000	929,500	12,180,000	6,112,225	40,175,567	2021
6,720,000	574,750	12,570,000	5,340,250	40,252,811	2022
7,090,000	194,975	13,290,000	4,629,100	40,205,502	2023
-	-	14,090,000	3,876,150	40,254,894	2024
-	-	14,890,000	3,079,200	40,260,582	2025
-	-	13,060,000	2,343,225	40,221,704	2026
-	-	13,725,000	1,673,600	40,282,332	2027
-	-	13,675,000	1,005,694	40,575,444	2028
-	-	14,335,000	340,456	40,587,456	2029
110,740,000	50,974,919	181,890,000	138,427,438	1,008,313,151	



## **EFFECTS OF EXISTING DEBT LEVELS ON CURRENT AND FUTURE OPERATIONS**

Debt service on the Certificates of Participation and Pension Obligation Bonds referenced in the previous schedules will not negatively effect current or future operations of the county. In aggregate, current required debt service expenditures remain relatively level for all fiscal years through 2022-23 and then drop significantly in succeeding years.

The county is currently contemplating the issuance of additional Certificates of Participation to fund the expansion of the Adelanto Adult Detention Facility, and construction and improvements related to the implementation of a master space plan. The 2007-08 budget allocates ongoing (annual) financing sources of \$7.0 million for future debt service for the expansion of jail facilities and \$20.0 million for future debt service related to the implementation of the county's master space plan.

## **OTHER LONG-TERM OBLIGATION**

The Library has a note payable to the California Infrastructure and Economic Development Bank for funds borrowed to finance the construction of a library in Apple Valley. This note is backed by the full faith and credit of the general fund; however it is paid from and budgeted in the Library budget, found in the Public and Support Services Group section of this budget book, in the Library Special Revenue Fund budget. The outstanding principal amount of this note as of June 30, 2006, the last date for which audited information is available, was \$1,808,712. Annual debt service on this obligation is approximately \$109,000 per year through fiscal year 2030-31.

## **LEGAL DEBT LIMIT**

The county's legal debt limit, which applies only to General Obligation Bonds, is 1.25% of Assessed Valuation. As of June 30, 2006, the last date for which audited information on outstanding debt is currently available, the county's Debt limit and legal debt margin were calculated as follows:

Fiscal Year	(1) Assessed Valuation	(1) Legal Debt Limit	(1) Bonded Debt	(1) Legal Debt Margin
2005-06	128,895,877	1,611,198	1,930	1,609,268

(1) Amounts in thousands

Source: San Bernardino County Comprehensive Annual Financial Report for the year ended June 30, 2006

The county general fund has no outstanding General Obligation Bonds, and therefore no debt service payments for General Obligation Bonds are budgeted in this document. The Bonded Debt referred to in the table above is the debt of Special Districts and therefore is budgeted in a separate budget document.

